PROCEEDING BEFORE JANE L. CLINE, INSURANCE COMMISSIONER OF THE STATE OF WEST VIRGINIA

IN RE: MARKET CONDUCT EXAMINATION OF SAFE INSURANCE COMPANY

ADMINISTRATIVE PROCEEDING NUMBER: 08-AP-040

AGREED ORDER ADOPTING REPORT OF MARKET CONDUCT EXAMINATION

NOW COMES Jane L. Cline, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the Report of Market Conduct Examination for the examination of Safe Insurance Company, hereinafter referred to as Safe Insurance Co. for the examination period ending December 31, 2006 based upon the following findings, to wit:

PARTIES

- 1. Jane L. Cline is the Insurance Commissioner of the State of West Virginia (the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.
- 2. Safe Insurance Co. is a Farmers' Mutual Fire Insurance Company authorized by the Insurance Commissioner to transact business in the State of West Virginia as permitted and authorized under Article 22, Chapter 33 of the West Virginia Code.

FINDINGS OF FACT

- 1. A Targeted Market Conduct Examination of the methods of doing business of Safe Insurance Company for the Five year period ending December 31, 2006, was conducted in accordance with West Virginia Code Section 33-2-9(c) by examiners duly appointed by the Insurance Commissioner.
- 2. On April 17, 2008, the examiner filed with the Insurance Commissioner, pursuant to West Virginia Code Section 33-2-9(j)(2), a Report of Market Conduct Examination.
- 3. On February 14, 2008, a true copy of the Report of Market Conduct Examination (attached hereto as Exhibit A) was sent to Safe Insurance Company by certified mall, return receipt requested, and was received by Safe Insurance Company on February 18, 2008.
- 4 On February 14, 2008, Safe Insurance Company was notified that, pursuant to West Virginia Code Section 33-2-9(j)(2), it had thirty (30) working days after receipt of the Report of Market Conduct Examination to file a submission or objection with the Insurance Commissioner.
- 5. On March 6, 2008, Safe Insurance Company responded to the Report of Market Conduct Examination ("Safe Insurance Company Response"). Safe Insurance Company's Response is attached hereto as Exhibit B.
- 6. Safe Insurance Company's Response did dispute facts pertaining to findings, comments, results, observations, or recommendations contained in the

ORDER

Pursuant to West Virginia Code Section 33-2-9(j)(3)(A), following the review of the Report of Market Conduct Examination, the examination work papers, and Safe Insurance Companys Response, the Insurance Commissioner and Safe Insurance Company have agreed to enter into this Agreed Order adopting the Report of Market Conduct Examination.

It is accordingly AGREED and ORDERED as follows:

That the Report of Market Conduct Examination of Safe Insurance Company is hereby ADOPTED and APPROVED by the Insurance Commissioner

That, within thirty (30) days of the entry date of this Agreed Order, Safe Insurance Company shall file with the Insurance Commissioner, in accordance with West Virginia Code Section 33-2-9(j)(4), affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report of Market Conduct Examination and a copy of this AGREED ORDER ADOPTING REPORT OF MARKET CONDUCT EXAMINATION.

Dated this 26th day of June, 2008.

Ján∳ L. Čline

Insurance Commissioner

THE PARTIES SO AGREE:
OFFICE OF THE INSURANCE COMMISSIONER
FOR THE STATE OF WEST VIRGINIA

Andrew. R. Pauley, Associate Counsel

6/24/c8

Date

SAFE INSURANCE COMPANY.

Name

Insurance

I

Report of Market Conduct Examination

As of December 31, 2006



SAFE INSURANCE COMPANY

1017 Sixth Ave. Huntington WV 25701

NAIC COMPANY CODE 15415 Examination Number WV014-M10

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October 22, 2007

The Honorable Jane L. Cline West Virginia Insurance Commissioner 1124 Smith Street Charleston, West Virginia 25301

Dear Commissioner Cline:

Pursuant to your instructions and in accordance with W.Va. Code §33-2-9, an examination has been made as of December 31, 2006 of the business affairs of

SAFE INSURANCE COMPANY

1017 Sixth Ave. Huntington, WV 25701

hereinafter referred to as the "Company." The following report of the findings of this examination is herewith respectfully submitted.

EXECUTIVE SUMMARY

This examination is a follow-up market conduct examination of Safe Insurance Company by the State of West Virginia. The examination fieldwork began October 22, 2007 and concluded on October 31, 2007. Nineteen (19) standards were tested during the examination, the Company passed Nineteen (19).

SCOPE OF EXAMINATION

The basic business areas that were examined under this examination were:

Company Operations and Management Producer Licensing Underwriting and Rating

Each business area has standards that the examination measured. Some standards have specific statutory guidance, others have specific company guidelines, and yet others have contractual guidelines.

The focus of the examination was on the methods used by the Company to manage its operations for each of the business areas subject to this examination. This includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas in which the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance. Most areas are tested to see if the Company is in compliance with West Virginia statute and rules.

This examination report is a report by test, rather than a report by exception, and all standards tested are described and the results indicated.

HISTORY AND PROFILE

Safe Insurance Company was formed in 1911, by West Virginians for West Virginians and continues to operate as one of the oldest insurance companies in West Virginia. Safe provides insurance to cover various risks exclusively in the State of West Virginia and is a West Virginia company.

Safe's home office was originally located in Harrisville, WV the county seat of Ritchie County in central West Virginia. The Company began as an assessable mutual insurer writing fire and lightning coverage primarily for farmers. Safe evolved and eventually became a non-assessable mutual insurer and today offers a variety of property and casualty insurance products to meet the needs of West Virginia residents and communities with multiple products tailored specifically to meet niche exposures and risks.

In January 1979, Safe became affiliated with Inland Mutual Insurance Company of Huntington, WV. Formed in 1937, Inland Mutual is West Virginia's oldest casualty insurer. Although the two companies are separate corporate entities, they operate on the same premises and share various expenses and operational management.

Safe Insurance Company was formed and is regulated under Chapter 33, Article 22 of the West Virginia Code and is one of the original members of the West Virginia Association of Mutual Insurance Companies.

Directors

Name	Residence	Principal Occupation
Keith Adams	Huntington, West Virginia	VA-Rating Specialist
J.P. Childers	Huntington, West Virginia	Contractor
C. E. Fry	Huntington, West Virginia	Retired Banker
J. Carter Norton	Glen Allen, Virginia	Info Tech 85/Ins. Exec.
L. F. Norton, Sr.	Huntington, West Virginia	Chairman. & Attorney
L. F. Norton, Jr	Huntington, West Virginia	Insurance Exec.
James B. Poindexter III	Chula Vista, CA	Military

Officers

The following senior officers were appointed by the Board of Directors in accordance with the Company's Bylaws

Name	Title
L. F. Norton, Jr	President
J. Carter Norton	Vice President
Mark E. McCallister	Treasurer
Michael A. Berlin	Secretary

The following is a list of the members from the appointed committees, as of December 31, 2006:

Executive Committee Proxy & Audit Committee Investment Committee

J. P. Childers J. Carter Norton J. Carter Norton

L. F. Norton Sr Keith Adams L. F. Norton Sr

J. B. Poindexter III

J. P. Childers

L., F. Norton Jr

METHODOLOGY

J. P. Childers

This examination is based on the standards and tests for a market conduct examination of a property and casualty insurer found in Chapter 16 & 17 of the NAIC Market Regulation Handbook and on applicable West Virginia statutes and rules.

Some of the standards were measured using a single type of review, while others used a combination or all types of review. The types of review used in this examination fall into three general categories: Generic, Sample, and Electronic.

A "Generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "Sample" review indicates that a standard was tested through direct review of a random sample of files selected using automated sampling software. The sampling techniques used are based on ninety-five percent (95%) confidence level with *Poisson* distribution---meaning sample sizes are generally the same without regard to population. For evaluation purposes, an error tolerance level of seven percent (7%) was used for claims and a ten percent (10%) tolerance was used for other types of review.

An "Electronic" review indicates that a standard was tested through use of a computer program or routine applied to a download of computer records provided by the examinee. This type of review typically reviews 100% of the records of a particular type.

Standards were measured using tests designed to adequately measure how the Company met certain benchmarks. The various tests utilized are set forth in the NAIC Market Regulation Handbook for a property and casualty insurer. Each standard applied is described and the result of testing is provided under the appropriate standard. The

standard, its statutory authority under West Virginia law, and its source in the NAIC Market Regulation Handbook are stated and contained within a bold border.

Each standard is accompanied by a "Comment" describing the purpose or reason for the standard. "Results" are indicated, examiner's "Observations" are noted, and in some cases, a "Recommendation" is made. Comments, Results, Observations and Recommendations are kept with the appropriate standard.

A. COMPANY OPERATIONS/MANAGEMENT

Comments: The evaluation of standards in this business area is based on a review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to provide a view of what the Company is and how it operates and is not based on sampling techniques, but rather the Company's structure. This review is not intended to duplicate a financial examination review but is important in establishing an understanding of the examinee. Many troubled companies have become so because management has not been structured to adequately recognize and address the problems that can arise. Well-run companies generally have processes that are similar in structure. While these processes vary in detail and effectiveness from company-to-company, the absence of them or the ineffective application of them is often reflected in failure of the various standards tested throughout the examination. The processes usually include:

- A planning function where direction, policy, objectives and goals are formulated;
- An execution or implementation of the planning function elements;
- A measurement function that considers the results of the planning and execution;
 and
- A reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

Standard A 1 NAIC Market Regulation Handbook - Chapter 16, § A, Standard 1

The examiner should review regulated entity records, central recovery and backup procedures. The plan and procedures should be valid and up-to-date.

W.Va. Code §§ 33-33-3 & 33-33-4

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement as it pertains to annual audited financial statements. A company that has no audit function lacks the ready means to detect structural problems until problems have occurred. A valid internal or external audit function and its use is a

key indicator of competency of management which the Commissioner may consider in the review of an insurer.

Results: Pass

Recommendations: None

Standard A 3

NAIC Market Regulation Handbook - Chapter 16, § A, Standard 3

The company has an antifraud plan in place.

W.Va. Code §\$33-41-1, et seq.

Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. Written procedural manuals or guides and antifraud plans should provide sufficient detail to enable employees to perform their functions in accordance with the goals and direction of management. Appropriate antifraud activity is important for asset protection as well as policyholder protection and is an indicator of the competency of management, which the Commissioner may consider in the review of an insurer. Further, the insurer has an affirmative responsibility to report fraudulent activities of which it becomes aware.

Results: Pass

Observations: The Company has no written procedures for handling potential fraud. The Company does require adjusters to report any potential fraudulent activity.

Recommendations: None

Standard A 4

NAIC Market Regulation Handbook - Chapter 16, § A, Standard 4

The company has a valid disaster recovery plan.

Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. It is essential that the Company have a formalized disaster recovery plan that will detail procedures for continuing operations in the event of any type of disaster. Appropriate disaster recovery planning is an indicator of the competency of management, which the Commissioner may consider in the review of an insurer.

Results: Pass

Observations: Company backup procedures require hardcopy (paper) files to be maintained in a fire proof safe. The computer files are in the developmental stage.

Recommendations: None

Standard A 7 NAIC Market Regulation Handbook - Chapter 16, § A, Standard 7 Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

W.Va. Code St. R. § 114-15-1, et seq.

Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. This standard is intended to assure that an adequate and accessible record exists of the Company's transactions. The focus is on the records and actions considered in a market conduct examination such as, but not limited to, trade practices, claim practices, policy selection and issuance, rating, and complaint handling, etc. Inadequate, disorderly, inconsistent, and inaccessible records can lead to inappropriate rates and other issues, which can provide harm to the public.

Results: Pass

Observations: Files are retained in accordance with State record retention requirements. Policy files contained all pertinent information from which to make an underwriting decision. There were several claim files in which documentation could have been improved, but the examiner did not believe that these instances rose to a level of a violation.

Recommendations: None

Standard A 8 NAIC Market Regulation Handbook - Cha	apter 16, § A, Standard 8	
The company is licensed for the lines of business that are being written.		
	W. Va. Code § 33-22-1	, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is intended to assure that the Company operations are in conformance with the Company's certificate of authority.

Results: Pass

Recommendations: None

Standard A 9

NAIC Market Regulation Handbook - Chapter 16, § A, Standard 9

The Company cooperates on a timely basis with examiners performing the examinations.

W. Va. Code § 33-22-9 & W. Va. Code St. R. § 114-15-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is aimed at assuring that the Company is cooperating with the State in the completion of an open and cogent review of the Company's operations in West Virginia. Cooperation with examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely fashion and minimizing cost.

Results: Pass

Observations: The Company was cooperative and the examination proceeded in a cordial atmosphere. Data provided was responsive and timely.

Recommendations: None

Standard A 12 NAIC Market Regulation Handbook – Chapter 16, § A, Standard 12 The company has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

W. Va. Code St. R. § 114-57-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: The Company, upon review of this report, submitted a copy of its written procedures for the management, collection, use and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders. Therefore the recommendation in the initial Market Conduct Report submitted to the Company has been removed.

Recommendations: None

B. PRODUCER LICENSING

Comments: The evaluation of standards is based on a review of Insurance Commission records and Company responses to information requests, questions, interviews, and presentations made to the examiners. This portion of the examination is designed to test the Company's compliance with West Virginia producer licensing laws and rules.

Standard D 1 NAIC Market Conduct Examiners Handbook - Chapter 16, § D, Standard 1 Company records of licensed and appointed (if applicable) producers agree with department of insurance records.

W. Va. Code § 33-12-3 & W.Va. Code St. R. § 114-2-1, et seq.

Comments: This standard has a direct statutory requirement. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed. Such producers are presumed to be qualified, having met the test for such license. W.Va. Code §33-12-3 states, "No person shall in West Virginia act as or hold himself out to be an agent, broker or solicitor nor shall any person in any manner solicit, negotiate, make or procure insurance covering subjects of insurance resident, located or to be performed in West Virginia, unless then licensed therefore pursuant to this article."

The section further states, "No insurer shall accept any business from any agent who does not then hold an appointment as agent for such insurer pursuant to this article."

Results: Pass with recommendation

Observations: The Company's list of current appointed producers was reconciled with the records of the West Virginia Insurance Commission. Seven (7) agents shown as active on the Company agent list were actually not renewed and were determined to be terminated by the Insurance Commission.

Recommendations: It is recommended the Company adopt and implement a procedure to reconcile their agent list with that maintained by the Insurance Commission at least once a year.

Standard D 2	NAIC Market Conduct Examiners	Handbook – Chapter 16, § D, Standard 2.
The producers are properly licensed a	and appointed (if required	by state law) in the jurisdiction
where the application was taken.		
		W. Va. Code § 33-12-18

Comments: Review methodology for this standard is sample. This standard has a direct statutory requirement. As applied in this section the test is file specific. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed for business solicited in West Virginia. The Company must appoint the producer within fifteen (15) days of the date the producer submits their first application to the Company.

Results: Pass

Observations: The Company utilizes independent agents to market and solicit insurance products in West Virginia. A review of one hundred and twenty (120) new business policy files determined that all but one application was signed by an appointed producer and it was returned to the Agency (Kesselring) to be signed by an appointed producer and attested to by applicant.

Table D 2 Producer Licensing Sample Results

Туре	Population	Sampled	N/A	Pass	Fail	%Pass
2002-2006 New Business Policies	7091	120	0	120	0	100%

Recommendations: None

Standard D 3	NAIC Market Regulation Handbook – Chapter 16, § D, Standard 3.
• -	with statutes regarding notification to the producer and
notification to the state if applicable.	W.Va. Code § 33-12-25 & W. Va. Code St. R. §114-2-1, et seq.

Comments: Review methodology for this standard is generic. This standard has a direct statutory requirement. It is generally file specific. This standard is aimed at both avoiding

unlicensed placements of insurance as well as ensuring that producers are treated fairly with respect to terminations. W.Va. Code §33-12-25 requires the Company to notify the Commissioner (on a form prescribed by the Commissioner) within thirty (30) days of terminating the producer's authority. The same code section further requires the producer to be notified simultaneously. Furthermore, W.Va. Code §33-12-25 requires the Company to notify the Commissioner if the termination is for cause.

Results: Pass with recommendation

Observations: The Company did not terminate any producers for cause during the examination period. The Company's list of 183 producers terminated during the examination period and 170 producer files for review. Thirteen (13) producer files were not found. Thirty-five (35) producer files the OIC cancelled the producer's license and the Company did not send a cancellation letter. The one hundred thirty-five (135) terminations initiated by the Company contained a copy of the notification letter to the OIC and producer.

Table D 3 Producer Licensing

			Not			
Type	Population	Sampled	supplied	Pass	Fail	%Pass
2002-2006 Terminated Producers files	183	183	13	170	13	93%

Recommendations: That the Company sends a cancellation letter to appointed producers whose license is cancelled by the OIC except in the case of the death of the producer.

	Standard D 4	NAIC Market Re	gulatio	n Handbook – Cha	pter 16	, § D,	Standard 4.	
	The company's policy of produce	· appointments	and	terminations	does	not	result in	unfair
	discrimination against policyholders.		1.44					
1						W. 1	Va. Code § 33	-11-4(7)

Comments: This standard does not have a direct statutory requirement. It is generally not file specific. This standard is concerned with potential geographical discrimination through the insurer's selection and instructions to its producers. The tests are intended to expose indicators of such practice but may not be conclusive.

Results: Pass

Observations: The Company's agents can be found throughout the State of West Virginia. The Company products are marketed in under-served areas. No unfair discrimination against policyholders can be inferred by the Company's producer appointment and termination records.

Recommendations: None

Standard D 5	NAIC Market Regulation Handbook - Chapt	ter 16, § D, Standard 5.
Records of terminated producers adec	uately document reasons for termina	ations
		W. Va. Code § 33-11-4(7)

Comments: Review methodology for this standard is generic. This standard has a direct statutory requirement. It is generally file specific. This standard is aimed at both avoiding unlicensed placements of insurance as well as ensuring that producers are treated fairly with respect to terminations. W.Va. Code §33-12-25 requires the Company to notify the Commissioner (on a form prescribed by the Commissioner) within thirty (30) days of terminating the producer's authority. The same code section further requires the producer to be notified simultaneously. Furthermore, W.Va. Code §33-12-25 requires the Company to notify the Commissioner if the termination is for cause.

Results: Pass

Observations: The Company submitted a list of 183 producers terminated and 170 producer files for review producing the following. Thirteen (13) producer files were not found. Thirty-five (35) producer files the OIC cancelled the producer's license and the Company did not send a cancellation letter. The one hundred thirty-five (135) terminations initiated by the Company contained copy of the notification letter to the OIC and producer.

Table D 5 Producer Licensing

Туре	Population	Sampled	Not supplied	Pass	Fail	%Pass
2002-2006 Terminated Producers files	183	183	13	170	13	93%

Recommendations: That the Company sends a cancellation letter to appointed producers whose license is cancelled by the OIC except in the case of the death of the producer.

C. UNDERWRITING AND RATING

Comments: The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, presentations made to the examiner, and file sampling. The underwriting and rating practices portion of the examination is designed to provide a view of how the Company treats the public and whether that treatment is in compliance with applicable statutes, rules and regulations. It

is typically determined by testing a random sampling of files and applying various tests to the sampled files. Testing is concerned with compliance issues.

Standard F 1: Rating Practices NAIC Market Regulation Handbook - Chapter 16, §F, Standard I

The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company rating plan.

W. Va. Code § 33-11-4(7) & W. Va. Code § 33-22-9

Comments: This standard is not a direct statutory requirement. It is file specific. It is necessary to determine if the Company is in compliance with the rating systems, which have been filed with and approved by the West Virginia Insurance Commission. Although Farmers Mutual Fire Insurance Companies are not required to file rates with the Insurance Commission, rates should not be unfairly discriminatory. Wide scale application of incorrect rates by a company may raise financial solvency questions or be indicative of inadequate management oversight. Deviation from established rating plans may also indicate a company is engaged in unfair competitive practices.

Results: Pass

Observations: A sample of one hundred twenty (120) new issue policy files was reviewed and the premium re-calculated to determine if the Company was following their underwriting guidelines. The Company consistently followed its underwriting guidelines. The reviewer noted that page 10, under premium credits, #2) there is a Mature Owner Credit of 10% not to exceed \$30.00 for owner-occupants 50 years of age or older. This credit appeared on two files in the sample (Policy #522012 & 523054). No other exceptions were noted.

Table F 1 Underwriting and Rating Practices

Туре	Population	Sampled	N/A	Pass	Fail	%Pass
2002-2006 New Business Policies	7091	120	0	120	0	100%

Recommendations: None

Standard F 2: Rating Practices

NAIC Market Regulation Handbook - Chapter 16, §F, Standard 2.

All mandated disclosures to insured concerning rates and coverage are accurate and timely.

W. Va. Code § 33-11-4(7) & W. Va. Code § §33-30-1et seq.

Comments: Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. It is necessary to provide insured's with appropriate disclosures, both mandated and reasonable. Without appropriate disclosures, insured's find it difficult to make informed decisions. Concerns tested included accuracy of producer quotations as well as properly executed offers of mine subsidence coverage

(Farmers Mutual Fire Insurance Companies may, but are not required to, offer mine subsidence coverage).

Results: Pass

Observations: A sample of one hundred twenty (120) new issue policy files was reviewed to determine if cost of coverage was accurately quoted. Quotations were reasonable and accurate, no exceptions were noted. Rate changes were made at renewal dates and insured's were provided adequate advance notice.

Table F 2 Underwriting and Rating Practices

Г	Туре	Population	Sampled	N/A	Pass	Fail	%Pass
	2002-2006 New Business Policies	7091	120	0	120	0	100%

Recommendations: None

Standard F 3: Rating Practices

NAIC Market Regulation Handbook - Chapter 16, §F, Standard 3.

Company does not permit illegal rebating, commission cutting or inducements.

W. Va. Code § 33-11-4(8)

Comments: Review methodology for this standard is sample and generic. This standard has a direct insurance statutory requirement. It is generally file specific. Illegal rebating, commission cutting or other illegal inducements are a form of unfair discrimination.

Results: Pass

Observations: A review of one hundred twenty (120) new issue policy files found no evidence of rebating or commission cutting.

Table F 3 Underwriting and Rating Practices

-	Туре	Population	Sampled	N/A	Pass	Fail	%Pass
	2002-2006 New Business Policies	7091	120	0	120	0	100%

Recommendations: None

Standard F 4: Underwriting

NAIC Market Regulation Handbook - Chapter 16, §F, Standard 4

The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks.

W. Va. Code § 33-11-4(7)

Comments: Review methodology for this standard is generic, sample, and electronic. This standard has a direct insurance statutory requirement. It is necessary to provide insured's with appropriate protection from unfair discrimination. Inconsistent handling of rating or underwriting practices, including request for supplemental information, even if not intended, can result in unfair discrimination.

Results: Pass

Observations: A sample of one hundred twenty (120) new issue policy files was reviewed to ensure underwriting information used to make decisions was not unfairly discriminatory. It was determined the Company was selecting risks and assigning rates according to Company guidelines and no unfair discriminatory practices were detected.

Table F 4 Underwriting Risk Selection

Туре	Population	Sampled	N/A	Pass	Fail	%Pass
2002-2006 New Business Policies	7091	120	0	120	0	100%

Recommendations: None

Standard F 6: Underwriting NAIC Market Regulation Handbook - Chapter 17, §F, Standard 2
Scheduled rating or Individual Premium Risk modification plans, where permitted are based on objective criteria with usage supported by appropriate documentation.

Comments: Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. Proper documentation of files reduces the likelihood of unfair discrimination.

Results: Pass

Observations: A review of one hundred twenty (120) new issue policy files indicated the Company had adequate documentation to support underwriting decisions. Underwriting files contained applications, photographs and inspections. Documentation was sufficient to determine risk on all applications.

Table F 6 Underwriting File Documentation

Туре	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 New Business Policies	7091	120	0	120	0	100%

Recommendations: None

Standard F 8: Termination Practices NAIC Market Regulation Handbook - Chapter 16, §F, Standard 8

Cancellation/non-renewal and Declination notices comply with policy provisions and state laws and company guidelines.

W. Va. Code § 33-11-4(7) (c)

Comments: Review methodology for this standard is sample and electronic. This standard does not have a direct insurance statutory requirement. As a Farmers' Mutual Fire Insurance Company, the Company is not subject to W.Va. Code §33-17A-4(a) and (b). Therefore, the Company has no direct statutory requirement to delineate reasons for declinations or cancellations on their notices. Conversely, this requirement may be

implied in order to assure compliance with W.Va. Code §33-11-4(7) (c) which prohibits unfair discrimination.

Results: Pass

Observations: A sample of one hundred twenty (120) new business files for Company initiated policy cancellations were reviewed for compliance with W. Va. Code § 33-22-15 and the Company's policy provisions. According to policy provisions the Company may, within the first 60 days cancel for any reason, after 60 days because: a) the premium is not paid; b) the policy was obtained through fraud, material misrepresentation or omission of fact; or c) there has been a material change or increase in hazard of the risk.

All Company policy cancellations were proper and according to policy provisions.

Table F 8 Underwriting-Cancellations

Туре	Population	Sampled	N/A	Pass	Fail	%Pass
Cancelled Policies	7091	120	0	120	0	100%

Recommendations: None

Standard F 9: Terminations

NAIC Market Regulation Handbook - Chapter 16, §F, Standard 9.

Rescissions are not made for non-material misrepresentation.

Comments: Review methodology for this standard is sample and electronic. This standard does not have a direct insurance statutory requirement. A large number of rescissions can reflect inadequate underwriting practices.

Results: Not applicable

Observations: The Company does not rescind policies or coverage. The Company issues coverage and if it later determines the insured does not meet underwriting guidelines or makes any material misrepresentations the Company cancels the policy and returns the entire premium.

Recommendations: None

SUMMARY OF RECOMMENDATIONS

Recommendation D-1: It is recommended the Company adopt and implement a procedure to reconcile their agent list with that maintained by the Insurance Commission at least once a year.

Recommendation D-3: That the Company sends an appointment cancellation letter to producers whose license is cancelled by the OIC except in the case of the death of the producer.

COMPLAINCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments made in the 2001 Examination Report regarding appointment of agents.

With regard to the "mature owner's credit" the Company's underwriting/rating manual continues to offer the discount and this examiner found no supporting evidence that the requested loss data to support this practice was submitted to the West Virginia Insurance Department.

EXAMINER'S AFFIDAVIT

State of West Virginia

County of Kanawha

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

- I, Charles L Swanson, being duly sworn, states as follows:
- 1. I have the authority to represent West Virginia in the examination of Safe Insurance Company.
- 2. I have reviewed the examination work papers and examination report, and the examination of Safe Insurance Company was performed in a manner consistent with the standards and procedures required by West Virginia.

The affiant says nothing further.

Charles L. Swanson

Examiner

Subscribed and sworn before me by Charles L. Swanson on this 17th day of December,

2007.

OFFICIAL SEAL
NOTARY PUBLIC
STATE OF WEST VIRGINIA
JOHN M. FRISBY
314 SIXTH AVENUE
MONTGOMERY, WV 25138
Commission Expires April 14, 2009

Notary Public

My commission expires April 14, 2009 (date).

EXAMINER'S SIGNATURE AND ACKNOWLEDGMENT

The examiner would like to acknowledge the cooperation and assistance extended by the Company during the course of the examination.

Charles L. Swanson

Examiner



June 18, 2008

JUN 19 2008

Jane L. Cline / Insurance Commissioner State of West Virginia PO Box 50540 Charleston, West Virginia 25305-0540 WVOIC LEGAL/ REG. COMPLIANCE

RE: Administrative Proceeding Number 08-AP-040 Market Conduct Examination Order

Dear Commissioner Cline,

Enclosed is an executed Order as relates to the Market Conduct Examination of the Safe Insurance Company. Copies of the Order as well as affidavits have been sent to each of Safe's directors. Upon receipt of the properly executed affidavits by each of Safe's directors, we will forward same to your office in accordance with West Virginia Code Section 33-2-9 (j)(4).

Please note there is an error in the Report of Market Conduct Examination. On page 12 of the report, there is a recommendation that does not correlate to any part of the report. We have discussed same with the market conduct examiner who is in agreement and trust such recommendation will be deleted from the report.

In the event you have any questions or we can be of further assistance, please feel free to contact me.

Sincerely,

Frank Norton Jr.

Safe Insurance Company

1-800-642-3541 Ext. 15